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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. 96-262
)	
Price Cap Performance Review)	
for Local Exchange Carriers)	CC Docket No. 94-1
)	
Transport Rate Structure)	CC Docket No. 91-213
and Pricing)	
)	
Usage of the Public Switched)	
Network by Information Service)	CC Docket No. 96-263
and Internet Access Providers)	

REPLY COMMENTS OF TELEPORT COMMUNICATIONS GROUP INC.

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SUMMARY

The Comments filed in this proceeding support the recommendation of Teleport Communications Group Inc. ("TCG") that the Commission should not deregulate Incumbent Local Exchange Carrier ("ILEC") access pricing until access service competition is sufficiently mature. As TCG has explained, Switched Access charge reform cannot be performed on a flash-cut basis or in a vacuum, but must be developed in stages and coordinated with the modifications the Commission will be making to its Universal Service and Separations policies.

The Comments also support TCG's views on rate structure. Switched Access rate structures must reflect how costs are incurred in order to meet the pro-competition goals of the Telecommunications Act of 1996. In this light, the Commission should reform the current non-cost based, anticompetitive tandem transport rate structure. At the present time, there is very little tandem competition because the Commission's non-cost based tandem transport policies have not allowed such competition to develop. Thus, the Commission should recognize that tandem transport consists of two distinct switching services -- one at the tandem, the other at the end office -- and it is appropriate that a user pay the costs of reaching each of the switches from which it wants service. Unbundling the tandem transport rate structure in this manner will allow competition to develop, whereas continuation of existing rate structures precludes competition.

The Commission should also revise its current policy regarding tandem switching charges and eliminate the below-cost pricing practices that now prevail. Thus, TCG and other parties support the Commission's proposal to recover tandem switching costs through traffic sensitive and non-traffic sensitive charges, with non-traffic sensitive elements such as ports recovered on a flat-rate basis. With regard to local switching costs that vary with usage, a flat-rate charge similarly would bring the rate structure for tandem switching more in line with the way costs are incurred.

The Commission should promptly comply with the Court of Appeals' decision and eliminate the anticompetitive and uneconomic residual interconnection charge ("RIC"). Of the four alternatives considered by the Commission for dealing with the RIC issue, the one endorsed by the Commission -- reassigning costs to the proper places for direct recovery and phasing out the remainder of the RIC through market-based or regulatory processes -- was supported by many parties, including TCG. In addition, TCG has recommended that the Commission eliminate any amounts remaining in the RIC through a uniform surcharge on all local transport elements. However, if the Commission decided to allow the remaining RIC amounts to be collected by the ILEC from end office based charges, it should seriously consider adopting the recommendations of certain parties that it ensure that users of CLEC switched transport facilities not be charged by the ILEC for any RIC elements.

Many parties agree that the Commission's market-based approach to ILEC pricing is premature and would hinder the development of effective competition because it sets an unjustifiably low threshold for significant and substantial deregulation. Virtually none of 105 parties to this proceeding support the Commission's Phase I proposal -- to permit ILEC geographic deaveraging and volume and term discounts upon a mere showing of "potential competition." To make this showing, an ILEC merely would have to demonstrate that the formal barriers to competition have been removed, not that new entry is economically feasible or will actually occur.

The flash-cut deregulatory approach that the Commission contemplates would also be inconsistent with its traditional approach of waiting until empirical evidence of competition is available before engaging in deregulation. Thus, the Commission should adhere to the methodology it has successfully used in the past, and implement a discrete, step-by-step plan that allows it to measure the effects of switched access reform before implementing deregulation. These steps should be in concert with the reforms the Commission will be making to its Universal Service and Separations policies.

TABLE OF CONTENTS

SUMMARY.	i
I. INTRODUCTION.	-1-
II. THE COMMISSION MUST ADOPT ACCESS CHARGE REFORMS THAT MEET THREE FUNDAMENTAL PRINCIPLES - ADDRESSABILITY, BASED ON COSTS, AND COMPETITION-ENHANCING.	-3-
III. SWITCHED ACCESS RATE STRUCTURES MUST REFLECT HOW COSTS ARE INCURRED TO ACHIEVE THE PRO-COMPETITIVE GOALS SET FORTH IN THE 1996 ACT. (§§ 55-139)	-4-
A. <i>TANDEM TRANSPORT FACILITIES</i> : THE COMMISSION MUST REFORM THE CURRENT ANTI-COMPETITIVE, DISCRIMINATORY AND NON-COST-BASED TANDEM TRANSPORT RATE STRUCTURE. (§§ 80-88)	-4-
B. <i>TANDEM SWITCHING</i> : THE COMMISSION MUST REFORM THE CURRENT ANTI-COMPETITIVE, DISCRIMINATORY AND BELOW COST TANDEM SWITCHING RATE STRUCTURE. (§ 89)	-11-
C. LOCAL SWITCHING CHARGES SHOULD BE REFORMED TO REFLECT THE WAY LOCAL SWITCHING COSTS ARE INCURRED. (§§ 72-79)	-12-
D. THE CURRENT RECOVERY OF INTERSTATE LOCAL LOOP COSTS SHOULD BE REFORMED TO ELIMINATE UNECONOMIC BYPASS INCENTIVES AND UNFAIR COST RECOVERY PROCESSES. (§§ 59-67)	-13-
E. THE COMMISSION MUST PROMPTLY COMPLY WITH THE COURT OF APPEALS ORDER AND ELIMINATE THE UNECONOMIC AND ANTI-COMPETITIVE RESIDUAL INTERCONNECTION CHARGE. (§§ 101-122)	-19-
IV. NUMEROUS COMMENTERS AGREE THAT THE COMMISSION'S PROPOSED MARKET-BASED APPROACH WILL HINDER THE DEVELOPMENT OF EFFECTIVE COMPETITION. (§§ 140-240)	-22-

A.	THE COMMISSION'S MARKET-BASED PROPOSAL INAPPROPRIATELY SETS A VERY LOW THRESHOLD FOR SIGNIFICANT AND SUBSTANTIAL DEREGULATION. (§§161- 217)	
	-22-
B.	THE COMMISSION SHOULD FOLLOW ITS SUCCESSFUL METHODOLOGY FOR DEREGULATION AND IMPLEMENT A DISCRETE, STEP-BY-STEP DEREGULATORY STRUCTURE THAT WOULD PERMIT THE COMMISSION TO MEASURE THE AFFECTS OF SWITCHED ACCESS REFORM PRIOR TO IMPLEMENTING DEREGULATION. (§§218-240)	
	-31-
V.	CONCLUSION	-35--

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REPLY COMMENTS OF TELEPORT COMMUNICATIONS GROUP INC.

Teleport Communications Group Inc. ("TCG") hereby submits its Reply Comments, pursuant to the Commission's Notice of Proposed Rulemaking in the above-captioned proceeding.¹

I. INTRODUCTION.

In its initial Comments, TCG generally supported the Commission's rate structure proposals, but parted company with the Commission with respect to its proposals for rate level changes. The initial Comments filed herein largely confirm TCG's views.

¹Notice of Proposed Rulemaking, Third Report and Order and Notice of Inquiry ("Notice"), CC Docket No. 96-262, (rel. Dec. 24, 1996).

While TCG has always favored the use of market-based approaches to improve the quality and lower the pricing of Incumbent Local Exchange Carrier ("ILEC") services, TCG stated that the Commission's proposal unrealistically accelerates ILEC deregulation well in advance of the development of local access competition. A large number of parties agree that the current state of competition is insufficient to substantially police ILEC access prices.

As TCG explained in its initial Comments, Switched Access reform needs to proceed in several stages. In the first stage, the Commission should implement basic rate structure reforms, largely along the lines laid out in the Notice. Those rate structure reforms should, at a minimum, be coincident with the corresponding changes in Universal Service policies. Because those rate structure reforms are substantial and complex, the Commission should allow time for the industry to adapt to those changes before introducing more instability into the system by deregulating ILEC prices for access services. The second stage of access reform logically should occur at the same time as Separations reform. As TCG and a number of other parties pointed out, until the Commission and the States change the Separations process, the costs that are today recovered through Switched Access charges will remain subject to recovery in the interstate jurisdiction.

Once Switched Access rate structures have been reformed, Universal Service policies put into place, and Separations reforms implemented, price levels for switched access will begin to approach reasonable levels. At that point, the

marketplace can begin to reach equilibrium, and the Commission can begin to evaluate whether conditions in the marketplace have begun to approach the competitive levels justifying any liberalization in its regulation of ILEC prices. The third stage of access charge reform, therefore, will present the Commission with the opportunity to implement additional regulatory reforms.

II. THE COMMISSION MUST ADOPT ACCESS CHARGE REFORMS THAT MEET THREE FUNDAMENTAL PRINCIPLES - ADDRESSABILITY, BASED ON COSTS, AND COMPETITION-ENHANCING.

In its initial Comments, TCG urged the Commission to measure any proposed access charge reform against three simple, fundamental principles. Those principles stress that, to be meaningful and enduring, access reform must keep the focus on the elements that lead to successful market-based competition. TCG calls these principles the "ABCs" of access charge reform:

"A" - ADDRESSABILITY. Access charges must be addressable by competition for consumers to have choice, and for the Commission to have confidence that prices are being driven to fair economic costs. Addressable in this context means that all access charges should be based on services, functions or facilities for which the customer has (or reasonably could have) the choice of a competitor's services.

"B" - BASED ON COSTS. Access charges must be based on economic costs.

"C" - COMPETITION-ENHANCING. The best access charge reform is a healthy competitive market. Prices based on market prices, rather than regulatory rules, are more likely to lead to appropriate results--provided that deregulation is not prematurely introduced. Special Access reform, while limited both geographically and in scope of services has, nonetheless, led over time to substantial reductions in DS3 and DS1 prices, and substantial improvements in DS3 and DS1 quality. The same pro-consumer results can be obtained in the larger switched access marketplace by creating an environment where competition can be effective, and where competitors have access to the same revenue streams as the incumbent.

III. SWITCHED ACCESS RATE STRUCTURES MUST REFLECT HOW COSTS ARE INCURRED TO ACHIEVE THE PRO-COMPETITIVE GOALS SET FORTH IN THE 1996 ACT.

A. TANDEM TRANSPORT FACILITIES: THE COMMISSION MUST REFORM THE CURRENT ANTI-COMPETITIVE, DISCRIMINATORY AND NON-COST-BASED TANDEM TRANSPORT RATE STRUCTURE.

In its initial Comments, TCG pointed out that the Commission's current local transport rate structure for tandem switched calls is discriminatory, not cost based, and inhibits competition -- and fails to satisfy even one of TCG's "ABCs" of access reform. TCG encouraged the Commission to promptly and completely reform its tandem transport pricing. Most parties agreed with TCG's

characterization of the infirmities in the current rate structure, and endorsed the same reforms that TCG supported.²

By way of background, there are two separate transport facilities used to provide tandem transport. The first element is the connection from the interexchange carrier (IXC) to the tandem switch. That facility is a Dedicated Transport facility, exclusively used by a single IXC, and indistinguishable from the Dedicated Transport facilities used to connect IXCs directly to end offices. The second element of tandem transport is the facility that connects the tandem switch to the ultimate end office. That facility -- generally referred to as a "Common Transport" facility -- is used to carry calls that are associated with many different interexchange carriers.

The major rate structure issue involving tandem transport is whether the Commission should continue to allow IXCs to purchase both of these tandem transport facilities on a minutes of use basis, with mileage measured from the IXC's location to the ultimate end office. This method understates the actual cost characteristics of the facilities, and thus violates the "Based on Costs" principle. By making the ILEC's tandem transport less expensive than it really is, it also inhibits competition for the tandem switching service (which suffers from rate

²See, e.g., TCG Comments at 12-17; ALTS Comments at 25; AT&T Comments at 59; MCI Comments at 86; Bell Atlantic-NYNEX Comments at 41; BellSouth Comments at 73; Alabama Public Service Commission at 9; Illinois Commerce Commission at 12.

structure defects of its own), since customers purchasing the ILEC's tandem transport must also buy its switching. It thus violates the principle that access reform must be competition-enhancing.

As noted above, numerous parties agreed with TCG that this non-cost based rate structure, which inhibits competition for tandem transport, must be eliminated. Instead, customers should pay on a flat-rated basis for the connection from the IXC to the tandem, since it is dedicated to a single IXC's use and its costs do not vary with usage.

Those few parties who continue to defend the FCC's non-cost based tandem transport structure offered no valid reasons to retain this anti-competitive rate structure. Some seem to base their argument on a classic "chicken and egg" analysis. They argued that there is no tandem competition, and therefore that the Commission should retain its non-cost based transport structure.³ Others argued that the Commission should continue to offer a unitary rate option because transport is an end-to-end service, or because it should not base rates on physical

³See, e.g., CompTel Comments at 15; Texas Public Utility Commission Comments at 16-17.

routing of services.⁴ Finally, other parties suggested that the Commission should continue the unitary structure to protect smaller IXCs.⁵

The Commission should recognize there is little tandem competition and that the *direct result* of its non-cost based tandem transport policies.⁶ Until those policies are fixed, competition cannot succeed in offering an alternative to ILEC tandem services. That is hardly a reason to retain that improper rate structure; if anything, it is proof beyond a reasonable doubt that the existing unitary rate option *must* be replaced. In fact, tandem competition is one of the most natural areas of the market where competition can be brought to bear. New entrants like TCG have switches capable of offering tandem services, and by establishing collocations or other interconnections to ILEC end offices and CLEC end offices, those competitors can offer a valid alternative to ILEC services.

TCG in fact very recently introduced a new switched access tandem product called "TCG Gateway" service in certain markets. This service offers IXCs an alternative to ILEC tandem switched access.⁷ TCG is in the early stages of offering this product, since it became possible as a result of recent interconnection

⁴Cable & Wireless Comments at 16; Sprint Comments at 21-22; CompTel Comments at 25-26.

⁵Texas Public Utility Commission Comments at 17; Worldcom Comments at 49.

⁶See Time Warner Communications Comments at 12-13.

⁷See Attachment 1 for an explanation of this product.

negotiations or arbitrations in certain states.⁸ But there remain large areas of the country where TCG was unsuccessful in obtaining, through negotiation or arbitration, an economically realistic opportunity to offer tandem services. In those markets, TCG will not have a feasible opportunity to offer its Gateway service unless the Commission removes the rate structure problems inherent in its current tandem transport and switching policies.

With respect to the argument that tandem transport is an end-to-end service and should be priced as such, or that tandem transport rates should not be divided into two pieces, the short answer is that it simply is not a single service and does not use a single transmission path. Tandem transport consists of two distinct transport facilities. For those two separate tandem transport services to be addressable by competitors, the rates must be unbundled. A user of a tandem transport service is purchasing two distinct switching services -- one at the tandem and one at the end office -- and it is proper and fair that it pay the costs of reaching each switch.⁹

⁸TCG's interconnection agreements with NYNEX, Pacific and BellSouth allow for some re-balancing of end office charges, including the RIC, which make tandem competition a more economically feasible proposition. Several TCG arbitrations also promise some improvement in the economics for such offering, although in many arbitrations TCG achieved little or no improvement in its tandem opportunities.

⁹The argument that eliminating the unitary transport option means that tandem users will be charged based on the "physical" routing of facilities while
(continued...)

Arguments that the two legs of the tandem transport facility should be treated as one also overlook the fact that the competitive characteristics of the two pieces are quite different. The connection from the IXC to the ILEC tandem is a separate, dedicated transport facility that is subject to potential competition. Indeed, since competing carriers like TCG tend to establish collocation arrangements in ILEC tandem offices in order to complete calls, competitors (but for the Commission's current policies) are well suited to offer direct competition for such facilities.¹⁰ Such competition can take the form of offering an entire, end-to-end alternative tandem transport network, or simply offering an alternative path to the ILEC tandem. ILEC Common Transport trunks, being shared by multiple carriers, are less prone to alternative provision by competitors, and competition for these facilities will best arise through the construction of alternative tandem switches and tandem transport to end offices. Bundling these two distinct facilities together will discourage competition for the IXC to tandem leg, since

⁹(...continued)

users of Direct Trunk transport (connections from IXCs to end offices that do not use the tandem) are rated on airline miles is flatly untrue. See CompTel at 26; Sprint at 21-22. Both legs of the tandem transport connection are rated based on airline miles, not physical routing. Because the tandem transport user is purchasing two separate switching services, it pays for the connections to each point where the switching is being provided, but it pays for those connections based on the airline miles from the IXC location to the tandem, and from the tandem to the end office.

¹⁰See TCI Comments at 15.

provision of that more competitive facility has become tied to the provision of a much less competitive, common transport facility. This approach would not, therefore, be Competition-Enhancing.

Continuation of a non-cost based unitary pricing scheme improperly and excessively "bundles" the two separate legs of this facility, and thus ignores the fact that these two facilities are different and are capable of being provided separately and by different carriers. Continuation of the unitary pricing arrangement therefore prevents competitors from offering alternatives for these services.¹¹

Finally, the Commission cannot accept the arguments of those who asked that the unitary structure be maintained in order to aid smaller IXCs. The Commission must recognize that its decision to "help" small IXCs in the first place has resulted in harm to small local competitors. The Commission cannot choose to help small IXCs at the expense of continuing harm to small local competitors. The right answer is to adopt a cost-based solution for all parties that is

¹¹Some parties also argued that existing ILEC tandem networks are not efficiently constructed, and that the unitary rate structure must be maintained because of that alleged condition. See Sprint Comments at 22; Texas Public Utility Commission Comments at 16-17. Again, the condition that these parties describe is the direct result of improper pricing policies. By preventing competition for tandem services, existing policies prevent competitors from offering more efficient alternatives to these ILEC tandem services. The solution is not, as some parties claimed, to maintain a non-cost based rate structure to "compensate" for alleged inefficiencies, but to establish a cost-based structure that allows competitors to "compete away" any such inefficiencies.

competitively fair. For example, the Commission's proposals to base the pricing of switching services on capacity measures is a cost based solution that opens up competitive opportunities for new local competitors like TCG, while striking a more equitable balance between the transport costs incurred by small IXCs and larger IXCs.¹² Rather than continuing policies that are clearly harmful to some segments of the marketplace, the Commission must adopt new policies that are fair to all. As TCG explained in its initial Comments, the right answer is to eliminate the unitary rate option in favor of dedicated transport charges for the connection from the IXC to the tandem switch.

B. TANDEM SWITCHING: THE COMMISSION MUST REFORM THE CURRENT ANTI-COMPETITIVE, DISCRIMINATORY AND BELOW COST TANDEM SWITCHING RATE STRUCTURE.

TCG and other parties stated that the Commission must revise its current charge for tandem switching and eliminate the intentionally below-cost policies that now prevail.¹³ Only in that way will tandem switching pricing satisfy the "ABCs" of access reform. Most parties also supported the Commission's recommendation that the costs of tandem switching be divided into traffic

¹²Existing per minute charges for tandem switching and transport charge a small IXC that puts 100,000 minutes over a DS1 tandem port during a month a rate that is ten times that paid by a large IXC that puts 10,000 peak minutes over its DS1 tandem port in the same month. Using capacity based charges will tend to equalize the charges between the two carriers, while better reflecting the true cost characteristics of the switch.

¹³See, e.g., TCG Comments at 18-21; AT&T Comments at 60.

sensitive and non-traffic sensitive components and recovered through appropriate charges. TCG and many other parties supported the Commission's proposal to recover the non traffic sensitive elements, such as ports, on a flat-rated basis. TCG and others noted that the adoption of a flat-rated charge for tandem switching will help bring the rate structure for tandem switching more in line with the way switching costs are incurred; this type of rate structure actually is a more economically efficient way to reflect "peak" and "off peak" cost characteristics in access rates without the need for usage sensitive charges that vary by time of day.¹⁴

C. LOCAL SWITCHING CHARGES SHOULD BE REFORMED TO REFLECT THE WAY LOCAL SWITCHING COSTS ARE INCURRED.

TCG and most other parties agreed with the Commission's proposal to separately identify non-traffic sensitive local switching costs and recover them on the basis of a flat-rated charge.¹⁵ TCG believes that a per-port charge, based on DS1 trunk ports, would be an appropriate rate structure for this purpose, and would be more "Based on Costs" than the current approach.

With respect to the costs that appear to vary with usage, a per-call or per-minute charge (or both) could be developed to recover those amounts. Again,

¹⁴TCG Comments at 19-21; Sprint Comments at 20.

¹⁵TCG Comments at 21-22; AT&T Comments at 55; Ameritech Comments at 14-15; Worldcom at 39; TCI Comments at 10; ALTS Comments at 26; Alabama Public Service Commission at 7-8.

TCG would recommend that the Commission look closely at such traffic sensitive costs to ensure that the costs of measuring and billing the usage are not disproportionate to the amount of the bill. If that is the case, then the Commission should look instead to flat-rated recovery of those costs as well.

D. THE CURRENT RECOVERY OF INTERSTATE LOCAL LOOP COSTS SHOULD BE REFORMED TO ELIMINATE UNECONOMIC BYPASS INCENTIVES AND UNFAIR COST RECOVERY PROCESSES.

There was considerable debate and discussion in the initial Comments regarding the best way for the Commission to reform its existing recovery of local loop costs. Most parties agreed that, because these costs are not traffic sensitive, revision of the current usage based recovery would be advisable. Some parties recommended that the Commission revise its existing Subscriber Line Charges and place most or all of those costs directly on the end user. Other parties recommended that the Commission balance the recovery of those costs by increasing the Subscriber Line Charge for certain customers, and recovering the balance of local loop costs from IXCs. With respect to recovery from IXCs, most advocated some sort of per line charge. The majority of parties which offered comments on "bulk billing" alternatives agreed with TCG that such methods were harmful to competition and should be avoided. As to specific topics, TCG's Reply Comments are as follows:

The Subscriber Line Charge. The State Commission parties, like TCG, agreed with the Commission's preliminary proposal to leave the existing \$3.50 per

month cap for primary residential lines in place.¹⁶ Some parties contended that the Commission should increase all SLCs, even primary residential lines, to full cost, although even some apparent proponents of this view recognized that this is not a politically feasible result.¹⁷

TCG and many others also agreed with the Commission's recommendation to gradually increase the cap on multi-line business users to full cost.¹⁸ Parties commented, in that regard, that the Commission should not maintain a subsidy for business users, and reminded the Commission that the new Act mandated the elimination of implicit subsidies.¹⁹ TCG does not believe that a gradual increase of \$1 per year in the cap on multi-line business users will adversely affect businesses in any way, and will certainly lead to a more cost-causative recovery of these amounts.

¹⁶Alabama Public Service Commission Comments at 6; California Public Utility Commission Comments at 5-6; Illinois Commerce Commission Comments at 6-10; Missouri Public Service Commission Comments at 3; Ohio Public Service Commission Comments at 3; South Dakota Public Utilities Commission Comments at 3.

¹⁷*See, e.g.,* Worldcom Comments at 32-33; Frontier Comments at 10; AT&T Comments at 53-54.

¹⁸TCG Comments at x-y; ALTS Comments at 24; TCI Comments at 10; Worldcom Comments at 33-34; AT&T Comments at 53-54; Ameritech Comments at 12-13; California Public Utility Commission Comments at 3.

¹⁹Worldcom Comments at 33 ["There is no policy justification, and no basis in the 1996 Act or other provision of law, for conferring subsidies upon any group of business customers, retention of the cap on the [SLC] would constitute a subsidy."]

There was somewhat more disagreement about the treatment of single line business users and second residential lines. The criticisms generally focused on the potential difficulties in identifying second residential lines versus other residential lines.²⁰ While TCG does not question that there will be some effort required to make such distinctions, TCG's view is that the Joint Board decision, if adopted by the Commission, will necessitate the development of such processes anyway in order to determine eligibility for universal service support. That being the case, it is reasonable for the Commission to presume that the industry will, by necessity, develop some method to categorize residential lines.²¹

A second criticism of the higher SLC rate for second residential lines raised by some parties was that the distinction between primary and secondary lines will somehow give new entrants a "competitive advantage" over ILECs.²²

Think about that for a moment. The ILECs have a one hundred year head start over new entrants, control over 99% of the market, and have lines to every

²⁰Pacific Telesis Comments at 62-63; USTA Comments at 56; NARUC Comments at 12, Frontier Comments at 7.

²¹TCG does not believe that the process will be as "impossible" as some parties would have the Commission believe. After all, the industry today already distinguishes between residential and business lines. Differentiating between primary and secondary residential lines can be as simple as defining the "primary" line as the line longest in service to a residential customer, and all other lines to that premises as secondary lines.

²²Pacific Telesis Comments at 63; US West Comments at 57; USTA Comments at 56.

home in America. They have appealed all pro-competitive rulings by state and federal commissions. By no stretch of the imagination are the ILECs competitive "poster children" in need of sympathy. ILECs already seem to have plenty of competitive advantages over new entrants like TCG, not the least of which is that their prices for unbundled loops to serve residential customers are generally higher than the total retail costs of their local exchange services, making the prospects for the CLEC to serve low density residential subscribers difficult whether it charges a higher SLC or not.

Moreover, from a substantive standpoint, this "competitive advantage" idea simply does not hold water. Even if one assumes away all the ILEC's competitive advantages (quite an assumption), the basic ILEC argument is that the CLEC will forego charging the higher SLC on second lines and thereby underprice the ILEC. This argument ignores the fact that the CLEC has to cover its costs, too.²³ The SLC is simply a means to recover a portion of local loop costs. The CLEC must cover its loop costs, and if it does not obtain those monies from the SLC it must

²³The Oregon Public Utility Commission supports elimination of SLCs in general because of alleged competitive concerns. Oregon Public Utility Commission Comments at 5 ["mandated SLCs on ILECs with no similar requirement on the competitive LECs (CLECs) places the ILEC at a competitive disadvantage. This disadvantage increases as the amount of the SLC increases."] These Comments ignore the fact that US West's SLC, like the monthly local exchange charges in US West's Oregon state tariffs, are simply ways to recover US West's costs. A SLC imposed by US West no more places it at a competitive disadvantage than any other rate US West charges to recoup its costs and earn a profit.

either recover them somewhere else or operate more efficiently and at a lower cost than the ILEC. Given the high prices for unbundled local loops, a higher SLC on second lines may in fact be helpful as a means to encourage local facilities based competition for second lines to residences by reducing the gap between retail residential rates and unbundled loop rates.

The Carrier Common Line Charge. There was little disagreement in the initial Comments over the Commission's proposal to eliminate the usage-sensitive recovery of these costs. The major dispute was over whether to recover these costs from "bulk billed" charges or more competitively neutral methods.

The supporters of bulk billed charges offered no persuasive basis for their position.²⁴ By contrast, the opponents of such charges offered a host of reasons why bulk billed charges are not desirable.²⁵ TCG believes that the opponents of

²⁴See, e.g., Pacific Telesis Comments at 72; USTA Comments at 63, 66; Ameritech Comments at 10-11. Ameritech argues, perversely, that bulk billing is better because it bears no relationship to actual marketplace conditions. Ameritech offers no explanation as to why a cost recovery system that is divorced from the events in the market is a market-driven and pro-competitive solution..

²⁵Alabama Public Service Commission Comments at 5 ["The proposed bulk billing alternative ... raises past and continuing concerns where significant differences exist between interstate and intrastate access rate levels."]; Time Warner Communications Comments at 7 [Bulk billing "will limit the incentive of long distance carriers to purchase access from CAPs, since the IXC's will have to pay ILEC costs regardless of their access provider. Further, bulk billing would reduce the ILEC's incentive to function efficiently, since it would partially shelter them from the effects of competition."]; MCI Comments at 77 ["The proposed bulk billing option, where IXC's are charged based on their relative minutes of use,

(continued...)

bulk billing have made their case, and the Commission can, with no hesitancy, discard that proposal.

The Commission's proposal of a per-presubscribed line charge, to be collected from interexchange carriers, was supported by TCG and many other parties.²⁶ Other parties, while agreeing with the Commission's plan to use a flat rated approach to the recovery of these costs, argued for the use of trunk ports or some other capacity measure.²⁷ As between flat rated charges based on IXC trunk ports versus presubscribed line ports, the use of line ports better aligns the recovery of local loop costs to the IXCs most likely to benefit from interstate calls over such loops, while leaving "dial around" traffic somewhat outside the cost recovery system. Trunk port based recovery would allow all IXCs, including dial around carriers, to contribute to the support of local loops.

²⁵(...continued)

retains the current usage sensitive recovery of NTS costs."]; California Public Utilities Commission Comments at 4; Texas Public Utility Commission Comments at 5-6.

²⁶TCG Comments at 26; Alabama Public Service Commission Comments at 4; California Public Utilities Commission Comments at 3; District of Columbia Public Service Commission Comments at 3-4; South Dakota Public Service Commission Comments at 3; NCTA Comments at 26; TCI Comments at 10.

²⁷Illinois Commerce Commission at 7; Missouri Public Service Commission at 2-3; Texas Public Utility Commission at 5.

Some parties suggested that the remaining amounts in today's CCL charge be collected directly from end users.²⁸ To the extent that IXCs simply pass these charges through to end users in the form of flat monthly charges, bypassing the IXC "middleman" and doing so directly might be more efficient and straightforward. Evaluation of that alternative would, however, need to consider its consistency with the Joint Board recommendation, and how acceptable it would be to the public at large.

E. THE COMMISSION MUST PROMPTLY COMPLY WITH THE COURT OF APPEALS ORDER AND ELIMINATE THE UNECONOMIC AND ANTI-COMPETITIVE RESIDUAL INTERCONNECTION CHARGE.

In its initial Comments, TCG pointed out that the CompTel decision mandated that the Commission revisit, and remove, the Residual Interconnection Charge (RIC). Virtually all commenting parties agreed that the RIC charge must go.²⁹ The RIC charge violates all three of the "ABCs" of access charge reform.

Of the four alternatives that the Commission proposed to deal with the RIC, the Commission's favorite -- reassigning costs to the proper places for direct

²⁸Winstar Comments at 3-4; Sprint Comments at 8.

²⁹Several parties argued that the Commission should simply eliminate any "unassigned" RIC costs immediately. NCTA Comments at 27; AT&T at 58-59; MCI at 86; Worldcom at 64. However, the ILECs point out that, to the extent the costs in the RIC have been lawfully assigned to the interstate jurisdiction under Separations, they have a right to an opportunity to recover those costs. USTA at 58-59; BellSouth at 75; US West at 76. That is one reason why TCG's initial Comments emphasized the need for the Commission to undertake access reform in multiple phases, with one key phase tied to the reform of Separations.